

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07  
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06  
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15  
STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 /110 W  
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P R 190725Z MAY 77  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC PRIORITY 7897  
TREASURY DEPT WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMCONSUL HONG KONG  
USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 7341

E.O. 11652: N/A  
TAGS: EFIN, JA  
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- MAY 12-18

1. SUMMARY: BANK OF JAPAN (BOJ) AND ECONOMIC  
PLANNING AGENCY (EPA) SEE SIGNS TEMPO OF RECOVERY IS PICKING  
UP. CENTRAL BANK (BOJ) GOVERNOR PLEDGES COOPERATION WITH  
GOVT TO AID INDUSTRIES LAGGING BEHIND RECOVERY. CURRENT  
ACCOUNT BALANCE OF PAYMENTS SHOWS LARGER SURPLUS IN APRIL.  
INCREASE IN BANK LOANS AAND DISCOUNTS SLOWS IN FIRST  
QUARTER 1977. WHOLESALE PRICES DECLINE IN APRIL. LABOR  
FIGURES SHOW FIRST QUARTER IMPROVEMENT. END SUMMARY.

2. BANK OF JAPAN AND ECONOMIC PLANNING AGENCY MONTHLY  
REPORTS, RELEASED THIS PAST WEEK, SAID THE ECONOMY SHOWS SIGNS  
OF RESPONDING TO INCREASED GOVT SPENDING BUT THAT,  
DESPITE RECENT IMPROVEMENT IN BUSINESS INVENTORY  
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POSITIONS, CONSUMER SPENDING REMAINED SLUGGISH AND BUSINESS  
CONFIDENCE, THOUGH SOMEWHAT IMPROVED, REMAINED WEAK.  
SPEAKING TO OSAKA BUSINESS LEADERS MAY 16 HOWEVER, BOJ GOV  
MORINAGA STRUCK MORE POSITIVE TONE, SAYING ECONOMIC  
RECOVERY WOULD GATHER STRENGTH IN FIRST HALF OF FISCAL 1977  
AND HIT FULL STRIDE THEREAFTER. MORINAGA SAID HE EXPECTED  
RECENT COMMERCIAL BANK INTEREST RATE REDUCTIONS WILL

CONTRIBUTE TO IMPROVED BUSINESS EARNINGS, ALTHOUGH EFFECTS OF THESE REDUCTIONS ARE NOT YET VISIBLE. EPA NOTED CONTRIBUTION TO DOMESTIC ECONOMY OF EVIDENT VIGOR IN U.S. RECOVERY AND JAPAN'S INCREASING EXPORTS TO OTHER REGIONS ALSO. HOWEVER, EPA OFFICIALS SEE POSITIVE RESPONSE OF DOMESTIC BUSINESS INVESTMENT TO RECENT INTEREST RATE CUTS AS A KEY REQUIREMENT FOR MAINTAINING RECOVERY TEMPO.

3. BOJ GOV MORINAGA SAID ON WED, MAY 18, THE CENTRAL BANK WILL COOPERATE WITH THE GOVT TO AID THOSE INDUSTRIES IN DIFFICULT FINANCIAL STRAITS AND ASKED PRIVATE BANKING INSTITUTIONS TO JOIN IN PROVIDING NECESSARY ASSISTANCE, INCLUDING LOANS TO DEPRESSED INDUSTRIES. SPEAKING AT A WEEKLY PRESS CONFERENCE, THE GOVERNOR SAID THE GOVT SHOULD STUDY CONCRETE STEPS TO AID INDUSTRIES, SUCH AS TEXTILES, SMALL STEEL PRODUCERS AND SHIP-BUILDING, WHICH ARE PARTICULARLY DEPRESSED, AS WELL AS MEASURES FOR THE GENERAL IMPROVEMENT OF THE ECONOMY. MORINAGA, NOTING THE RECENT INCREASE IN BAD DEBTS, SAID THIS PROBLEM IS NOT YET SO SERIOUS AS TO AFFECT THE OPERATION OR CREDIBILITY OF BANKING INSTITUTIONS. THE HIGH LEVEL OF BANKRUPTCIES, DESPITE OVERALL ECONOMIC RECOVERY, CONTINUES TO CLOUD THE FINANCIAL SCENE. IN MARCH 1977 (THE CLOSE OF THE BUSINESS YEARS FOR MOST FIRMS) THE NUMBER OF BANKRUPTCIES ROSE TO ALL-TIME HIGH OF 1,706 CASES BEFORE DROPPING SLIGHTLY IN APRIL. IN THE FIRST FOUR MONTHS OF THIS YEAR THE NUMBER OF BANKRUPTCIES IN JAPAN WAS ALMOST 30 PERCENT HIGHER THAN IN THE SAME PERIOD LAST YEAR. ALTHOUGH RECENT MONTHS HAVE NOT SEEN UNCLASSIFIED

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THE SPECTACULAR BANKRUPTCIES OF MAJOR CORPORATIONS, SUCH AS KOHJIN, LTD., WHOSE AUG 1975 COLLAPSE WAS THE LARGEST POSTWAR BUSINESS FAILURE, THE UNEVEN NATURE OF THE RECOVERY IS REFLECTED IN THE CONTINUING FINANCIAL PROBLEMS OF SMALL AND MEDIUM-SIZE FIRMS IN SUCH INDUSTRIES AS TEXTILES, PLYWOOD, SHIPPING AND SMALLER STEEL FIRMS.

4. A SURGE OF SHIP EXPORTS AND DECLINE IN CRUDE OIL IMPORTS BOOSTED APRIL CURRENT ACCOUNT SURPLUS, SEASONALLY ADJUSTED, TO \$1.2 BIL. ON OTHER HAND, NET CAPITAL OUTFLOWS INCLUDING ERRORS AND OMISSIONS AND BANKING CAPITAL, ACCELERATED TO REACH \$1.0 BIL IN APRIL, PRESUMABLY IN PART REFLECTING SERIES OF INTEREST RATE REDUCTIONS WHICH BEGAN MID-MONTH.

5. GROWTH IN BANK LOANS AND DISCOUNTS SLOWED IN THE FIRST QUARTER OF 1977, AFTER ACCELERATING IN THE FOURTH QUARTER OF LAST YEAR. LOANS AND DISCOUNTS OF ALL BANKS IN JAPAN (S.A., JEI 133), ALTHOUGH PICKING UP SOMEWHAT

IN MARCH, RECORDED MODERATE ADVANCE FOR THE FIRST THREE MONTHS OF 1977, GROWING AT LESS THAN 10 PERCENT ANNUAL RATE.

BANK LOANS AND DISCOUNTS (JEI 133)

RECENT MONTHS (S.A., BIL YEN; PERCENT CHANGE FROM PRIOR MONTH IN PAREN):

JAN	98,312 (0.7)
FEB	99,063 (0.8)
MAR	100,083 (1.0)

RECENT QUARTERS (S.A., PERCENT CHANGE FROM PRIOR

QUARTER ON BASIS OF QUARTERLY AVERAGE):

1977 JAN-MAR	2.3
1976: OCT-DEC	2.9
JUL-SEP	2.6
APR-JUN	2.6
JAN-MAR	2.8

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-----190818Z 080622 /10

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6. WHOLESALE PRICES DIPPED 0.1 PERCENT IN APRIL, CONTINUING TO DISPLAY THE RELATIVE STABILITY THAT BEGAN IN THE FINAL MONTHS OF LAST YEAR. BOJ OFFICIALS SAID THE MODEST DECLINE IN THE OVERALL INDEX (JEI 471) WAS LARGELY ATTRIBUTABLE TO THE IMPACT OF YEN APPRECIATION DURING THE FIRST HALF OF APRIL ON PRICES OF IMPORTED COMMODITIES. WHOLESALE PRICES OF MANUFACTURED GOODS HAVE INCREASED AT LESS THAN 1

PERCENT ANNUAL RATE DURING THE PAST SIX MONTHS.

INDEX, N.S.A., 1970 EQUALS 100; PERCENT CHANGE

FROM PRIOR MONTH IN PAREN

ALL COMMODITIES    MANUFACTURES

JAN	168,8 (-0.1)	159.6 (0.0)
FEB	169.4 (0.4)	159.7 (0.1)
MAR	169.5 (0.1)	159.8 (0.1)
APR	169.4 (-0.1)	159.9 (0.1)

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7. LABOR CONDITIONS SHOW SOME MIXED PICTURE IN MARCH. THE NUMBER OF UNEMPLOYED, SEASONALLY ADJUSTED, ROSE FOR THIRD MONTH IN A ROW IN MARCH TO 1.05 MIL PERSONS, THOUGH MARCH UNEMPLOYMENT RATE, AT 1.9 PERCENT, REMAINED UNCHANGED FROM PRIOR MONTH. (NOTE: PRIME MINISTER'S OFFICE, USING DIFFERENT SEASONAL FACTORS THAN EPA, ALSO REPORTED THAT MARCH UNEMPLOYMENT RATE WAS 1.9 PERCENT.) BRIGHT SIDE OF MARCH LABOR CONDITIONS, ON OTHER HAND, WAS MODEST IMPROVEMENT IN JOB OFFERS/APPLICANTS RATIO AND FURTHER INCREASE IN INDEX OF OVERTIME WORKED IN MANUFACTURING INDUSTRIES. MARCH UNIT LABOR COST INDEX NOT YET AVAILABLE. IN JAN, THE LATEST MONTH FOR WHICH DATA AVAILABLE, INDEX OF LABOR PRODUCTIVITY IN MACHINERY INDUSTRY DECLINED AFTER CONSECUTIVE INCREASES IN PRECEDING THREE MONTHS. FOR FIRST QUARTER 1977 AS A WHOLE, LABOR CONDITIONS SHOW HEALTHY IMPROVEMENT FROM LAST QUARTER OF 1976 EXCEPT FOR JOB OFFERS/APPLICANTS RATIO. COMPARED WITH YEAR-EARLIER DATA, NEARLY ALL INDICATORS OF LABOR CONDITIONS SHOW SOMEWHAT BRIGHTER PICTURE FOR JAN-MARCH 1977.

JEI NO.	SERIES (UNIT)	JAN	FEB	MAR
RECENT MONTHS:				
385	JOB OFFERS/APPLICANTS RATIO	0.62	0.61	0.62
401	MFG. OVERTIME (1975 EQUALS 100)	141.6	143.7	146.
2				
378	UNEMPLOYED (THOUSANDS)	1,000	1,030	1,050
379	UNEMPLOYMENT RATE (PERCENT)	1.8	1.9	1.9
421	UNIT LABOR COST (1970 EQUALS 100)	191.2	194.9	N/A
N/A LABOR PRODUCTIVITY, MACHINERY				
(1970 EQUALS 100)				
1976, JAN-JUNE: 152.5, 158.3, 160.1, 167.2, 164.7,				
170.2; JUL-DEC: 169.7, 171.3, 170.2, 170.6, 177.2,				
180.0; 1977, JAN: 172.7				

QUARTERLY DEVELOPMENTS (MONTHLY AVERAGES):

1976    1976    1977

JAN-MAR::    OCT-DEC    JAN-MAR

JOB OFFERS/APPLICANTS

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RATIO 0.61 :: 0.63 0.62

MFG. OVERTIME WORKED 122.2 :: 137.9 143.8

UNEMPLOYED 1060 :: 1040 1030

UNEMPLOYMENT RATE 2.0 :: 1.9 1.9

(NOTE: ALL SERIES ARE SEASONALLY ADJUSTED BY EPA. EPA HAS  
REVISED SEASONAL FACTORS FOR LABOR PRODUCTIVITY FOR ALL  
MONTHS OF 1976. ALL DATA ARE ON REVISED BASIS.)

SHOESMITH

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## Message Attributes

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